

May 17, 2024

Higher Education Financing Agency: Rating upgraded to [ICRA]AA+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	3,500.00	3,500.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Issuer rating	NA	NA	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Total	3,500.00	3,500.00	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in the steady increase in Higher Education Financing Agency's (HEFA) scale of operations and the stable asset quality performance since the commencement of operations in 2018. The company's portfolio scaled up to Rs. 7,182.5 crore as of December 2023 from Rs. 6,159 crore as of March 2023 (Rs. 2,496.7 crore as of March 2019; compound annual growth rate (CAGR) of 93% over past five years). HEFA would continue to scale up steadily over the medium term as it anticipates sanctioning around Rs. 58,000 crore of loans over the next 2-3 years. Its asset quality remains strong, supported by the timely receipt of Government of India (GoI) grants and an escrow mechanism with the borrowing institutions, which provides comfort regarding the collection of instalments. Non-performing assets (NPAs) were nil as of December 2023.

The GoI has a majority stake in the company, which has received support from its shareholders in the past. While the GoI has a 90.9% equity stake in HEFA, the rest (9.1%) is held by Canara Bank {rated [ICRA]AAA (Stable)}. The company has received regular capital infusions from its shareholders, the most recent being Rs. 220 crore in FY2021 (Rs. 2,310 crore in FY2020). The rating continues to factor in HEFA's experienced board and the operational support from Canara Bank. The bank supports the company in the loan appraisal process and its senior management team consists of personnel on deputation (for a period of three years) from the bank.

The rating also takes cognisance of HEFA's limited track record as it commenced operations in FY2018. The company's lending spreads are expected to remain lean, given the 'not-for-profit' nature of its operations. It has external borrowings from Canara Bank as of date. Accordingly, its capital profile remains comfortable with a gearing of 0.0 times as of December 31, 2023 (0.0 times as of March 31, 2023). HEFA's liquidity profile is supported by expected inflows from advances and borrowings from Canara Bank at present.

Key rating drivers and their description

Credit strengths

Majority GoI holding; demonstrated support from stakeholders – HEFA was set up by the GoI as a joint venture (JV) with Canara Bank. As on December 31, 2023, the GoI and Canara Bank held equity stakes of 90.9% and 9.1%, respectively. The company received regular capital infusions from the stakeholders in the past (Rs. 4,993.8 crore during FY2019-FY2021), which strengthened its capitalisation profile. As of December 2023, HEFA's net worth stood at Rs. 7,269.8 crore with limited borrowings outstanding. While the company is expected to raise more debt for portfolio growth over the near to medium term, ICRA expects it to continue receiving timely and adequate capital support from the stakeholders, when required. ICRA also notes that the shareholding is likely to remain in the current proportion in the near to medium term.

Experienced board and operational support from Canara Bank – HEFA’s board comprises eight experienced personnel from the fields of education and banking while the Chairman is the Secretary, Ministry of Education (MoE). The board is empowered to sanction loan facilities to eligible institutions in accordance with the company’s credit policy. A sub-committee of the board monitors the progress of the projects funded by HEFA on a quarterly basis and interacts with the institutes, as required.

The company currently has a lean management team consisting of personnel with established banking and credit experience in Canara Bank. The bank extends operational support by deputing experienced personnel as senior management to the company for a period of three years and by conducting the credit appraisal process of the loan sanctions. It receives a management fee of about 1% of HEFA’s annual disbursements.

Focus on financing capital expenditure requirements of Gol-funded/controlled educational institutions – HEFA has been set up with the primary objective of lending to educational institutions, especially in the higher education segment. The company’s target borrower profile includes premier higher educational institutions such as the Indian Institute of Management (IIM), the Indian Institute of Technology (IIT), the National Institute of Technology (NIT), the Indian Institute of Science Education and Research (IISER) and other Central universities. The established brands of these institutions with steady student inflows provide HEFA with strong growth prospects, given the growing infrastructure needs of these institutions. Financing to these institutions is currently done through four windows, identified with varying levels of dependence on Gol grants for servicing the principal and interest portions of the loan, depending on the vintage and type of institution.

Entities offered credit under Window I would have to fully service their principal obligation and service 10% of the interest obligation, with the balance to be serviced through Gol grants. For loans extended under Window II, institutes would have to service 25% of the principal obligation and 10% of the interest obligation. Under Window III, 10% of the principal obligation would be serviced by the institutes, while interest will be serviced by Gol grants (except in the case of technical institutions established after 2014 where 5% of the interest obligation would also be serviced by the institutes). Under Window IV, the principal and the interest are to be serviced by the institutes according to the new window classification. ICRA notes that HEFA is planning to expand the list of eligible institutions for extending loans, going forward.

Asset quality strengthened by Gol support and escrow mechanism – HEFA’s asset quality is supported by the timely receipt of Gol grants and the prompt replenishment of the escrow balance by the institutions. The company does not have any NPAs as of date. ICRA takes note of the escrow mechanism, whereby the borrowing institution is required to maintain one half-yearly instalment of the principal in the escrow account at the time of the sanctioning of the loan (about 5% of the loan amount) and replenish the same on a half-yearly basis post drawdown. Typically, the replenishment of the escrow is carried out promptly. Generally, the servicing of the loans extended by HEFA has been as per the terms, though there were marginal delays (up to 30 days) in servicing by some of the borrower exposures due to operational reasons.

ICRA notes that the onus of the debt servicing obligation, under the revised window classification, may shift to the institution by varying extents, going forward, with a corresponding reduction in Gol support. However, considering the target borrower profile, which comprises Gol-funded/controlled higher educational institutions, ICRA expects adequate and timely support from the Gol to these institutions in the event of stress.

Credit challenges

Limited track record; diversified funding profile crucial for growth – Incorporated in FY2018, HEFA commenced lending in FY2018. ICRA notes that the company has a limited track record of operations in relation to the loan tenor (which are typically around 10-15 years). The loan portfolio increased to Rs. 7,183 crore in December 2023 from Rs. 2,497 crore in March 2019. As of March 2024, the company had sanctioned disbursement commitments of Rs. 19,751.5 crore. Further, under the next window classification, HEFA expects to sanction around Rs. 58,000 crore of projects over the medium term. This is expected to support the scale-up of its portfolio, going forward.

As of December 2023, the company had borrowings from Canara Bank. However, given its sizeable disbursement commitments (Rs. 19,249.64 crore as of December 2023) as well as the planned expansion of its borrower base, HEFA's funding requirements would increase going forward. In the past, HEFA had secured funding from a few other banks. It would be crucial for the company to diversify its funding profile to secure low-cost funds and to maintain a comfortable liquidity profile as the portfolio expands.

Lending spreads expected to stay lean; however, profitability remained healthy in 9M FY2024 – HEFA's lending spreads are expected to remain lean as it is a Section 8, not-for-profit company, formed to support Gol-funded/controlled institutes in raising funds. The operating expenses largely comprise the management fee paid to Canara Bank for services received. The company reported a provisional net profit of Rs. 293.2 crore in 9M FY2024 (Rs. 397.3 crore in FY2023) with the return on managed assets (RoMA) remaining healthy at 5.4% (annualised) vis-à-vis 5.3% in FY2023. However, HEFA's profitability would moderate to a certain extent as the leverage increases, given the lean lending spreads.

Liquidity position: Adequate

HEFA had an unencumbered cash and bank balance of Rs. 169.3 crore, as on March 31, 2024, with debt obligations of Rs. 61 crore (principal + interest) during April 2024 to September 2024. Collections from advances (inflows) during the aforementioned period are expected to be Rs. 1,220.4 crore.

Rating sensitivities

Positive factors – Significant scale-up of the portfolio, while maintaining comfortable capitalisation and asset quality. Diversification of the funding profile would also positively impact the rating.

Negative factors – Pressure on the rating could arise if there is an adverse change in the shareholding pattern with a significant reduction in the Gol's holding or lower-than-expected support from the Gol. Material weakening in the asset quality, affecting the earnings or capital profile, would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	The rating considers HEFA's importance to the Gol as a vehicle for policy implementation and factors in timely support from the Gol
Consolidation/Standalone	Standalone

About the company

HEFA is a joint venture between the Ministry of Education, the Government of India (Gol) and Canara Bank. It was established in 2017 with the objective of financing the capital asset creation of Central Government funded/controlled educational institutions. At present, HEFA has been constituted as a not-for-profit under Section 8 of the Companies Act, 2013 and is registered as a non-banking financial company (NBFC) with the Reserve Bank of India (RBI). It reported a profit after tax (PAT) of Rs. 293.2 crore (provisional) in 9M FY2024 on a loan book of Rs. 7,182.5 crore (provisional) as of December 2023. Its net worth stood at Rs. 7,269.8 crore (provisional) as of December 2023.

Key financial indicators

Higher Education Financing Agency	FY2022	FY2023	9M FY2024 (provisional)
Total income	589.3	445.8	294.4
Profit after tax	447.5	397.3	293.2
Total managed assets ¹	7,896.3	7,015.5	7,339.5
Return on managed assets	5.6%	5.3%	5.4%
Reported gearing (times)	0.2	0.0	0.0
Gross stage 3	-	-	-
CRAR	71.73%	63.15%	66.46%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				May 17, 2024	Mar 09, 2023	Feb 11, 2022	Mar 31, 2021	
1 Issuer rating	LT	NA	NA	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	
2 Long-term fund based – Term loan	LT	3,500.00	0.00	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Long-term fund based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

¹ Total managed assets = Total assets + Off-book assets under management

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	NA	[ICRA]AA+ (Stable)
NA	Term loan	Sep 2023	8.4%	Sep 2033	500.00	[ICRA]AA+ (Stable)
NA	Term loan – Unallocated	NA	NA	NA	3,000.00	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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